

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 COME-00 EB-08 LAB-04 SIL-01 TRSE-00 /072 W
-----006103 291823Z /47

R 291625Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6642
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY DUBLIN
AMEMBASSY COPENHAGEN
AMCONSUL EDINBURGH
AMCONSUL BELFAST

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USEEC ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: PGOV, PINT, UK
SUBJECT: LIBERAL PACT CLINCHED, BUT CONDITIONALLY

REFERENCE: (A) LONDON 12359; (B) LONDON 11717;
(C) LONDON 12154 (NOTAL);
(D) LONDON 11909 (NOTAL)

SUMMARY: BY AN EXCHANGE OF LETTERS JULY 28, PRIME
MINISTER CALLAGHAN AND LIBERAL LEADER STEEL ANNOUNCED
RENEWAL OF THE LIBERAL PACT WITH THE GOVERNMENT. THE
NEW ACCORD, HOWEVER, HAS NO FIXED DURATION AND LIBERAL
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SUPPORT IS CONTINGENT ON THE GOVERNMENT'S ABILITY TO
KEEP WAGE SETTLEMENTS WITHIN THE 10 PERCENT GUIDELINE
AND HOLD DOWN INFLATION. THE LIBERAL LETTER ALSO ASKED
THE GOVERNMENT TO CONSIDER SEVERAL SPECIFIC LEGISLATIVE
GOALS. THE PRICE FOR RENEWAL, FROM CALLAGHAN'S STAND-
POINT, WAS LOW, BUT THE POLITICAL VALUE OF LIBERAL SUP-
PORT DECLINED AFTER THE GOVERNMENT'S APPARENTLY SUC-

CESSFUL EFFORTS TO NEUTRALIZE OPPOSITION FROM THE OTHER MINOR PARTIES. THE CONDITIONALITY CLAUSE ALSO REDUCES THE PACT'S VALUE TO THE GOVERNMENT, BUT THE RESULT DOES IMPROVE CALLAGHAN'S SHORT-TERM POSITION. END SUMMARY

1. THE CABINET, REPORTEDLY AFTER ONLY 10 MINUTES DELIBERATION, AGREED TO ACCEPT THE LIBERAL PARTY'S TERMS FOR RENEWAL OF ITS PACT WITH THE GOVERNMENT, AND THE ACCORD WAS LATER ANNOUNCED BY THE PUBLIC RELEASE OF AN EXCHANGE OF LETTERS BETWEEN LIBERAL LEADER DAVID STEEL AND PM CALLAGHAN (REF A). IN HIS LETTER STEEL SAID THE LIBERALS WOULD CONTINUE THEIR SUPPORT OF THE GOVERNMENT "FOR AS LONG AS THE OBJECTIVES SET OUT IN THE CHANCELLOR'S STATEMENT OF JULY 15 (REF B) ARE SUSTAINED". CONTINUING, STEEL STRESSED THE INTEGRITY OF THE 12-MONTH RULE ON WAGE SETTLEMENTS AND THE 10 PERCENT INCREASE GUIDELINE FOR WAGE SETTLEMENTS' AND REAFFIRMED THE CURRENT GOVERNMENT/LIBERAL CONSULTATIVE MECHANISMS. HE ALSO CITED SEVERAL SPECIFIC AREAS--INCREASED EMPLOYMENT OPPORTUNITIES, ESPECIALLY FOR THE YOUNG; PROFIT SHARING IN PRIVATE INDUSTRY; REDUCED INCOME TAXATION; RE-INTRODUCTION OF THE EC DIRECT ELECTIONS AND DEVOLUTION BILLS; ASSISTANCE FOR FIRST TIME HOUSE BUYERS; MORE EFFECTIVE COMPETITION AND CONSUMER PROTECTION POLICIES; AND REFORM OF THE OFFICIAL SECRETS ACT--IN WHICH HIS PARTY HOPED TO SEE LEGISLATION INTRODUCED, BUT ACKNOWLEDGED LIMITED OFFICIAL USE

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EDGED THAT RENEWAL OF THE PACT DID NOT IMPOSE SPECIFIC OBLIGATIONS ON EITHER PARTY. THE DEAL OFFERED WAS WITHOUT TIME LIMIT AND CONTINGENT ON LIBERAL PERCEPTIONS OF THE GOVERNMENT'S SUCCESS WITH ITS INDUSTRIAL RELATIONS AND ANTI-INFLATION POLICIES.

2. CALLAGHAN'S LETTER AGREED TO STEEL'S PROPOSALS AND CONDITIONS, AFFIRMING THE GOVERNMENT'S RESOLVE ON THE INFLATION AND EMPLOYMENT FRONTS, ITS WILLINGNESS TO CONTINUE CONSULTATIONS AND ITS DESIRE TO PRESERVE THE "INTEGRITY OF BOTH OUR PARTIES".

3. THE PRESS REPORTED THAT LIBERAL LEADERS SUBSEQUENTLY EMPHASIZED THAT THEY WOULD BE LOOKING AT THE GENERAL PATTERN OF WAGE SETTLEMENTS RATHER THAN INDIVIDUAL AGREEMENTS. AGAIN ACCORDING TO THE PRESS. ALL LIBERAL MPS EXCEPT CYRIL SMITH AGREED TO SUPPORT THE PACT (JO GRIMOND AND ONE OTHER MP REPORTEDLY OPPOSED ITS EXTENSION, BUT AGREED TO ACCEPT THE MAJORITY WILL). SMITH IS EXPECTED TO CARRY HIS OPPOSITION TO THE LIBERAL PARTY CONFERENCE IN SEPTEMBER, BUT IT SEEMS UNLIKELY THAT THE CONFERENCE COULD OVERRULE THE DECISION OF THE

LIBERAL MPS, EVEN IF A MAJORITY OF THE DELEGATES WISHED
TO DO SO.

4. ANOTHER INTERESTING ASPECT OF THE RENEWAL IS THAT IT

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WAS NOT WORKED OUT JUST BY CALLAGHAN AND STEEL, AS WAS
THE CASE WITH THE ORIGINAL PACT. THIS TIME THE CABINET
AND THE LIBERAL MPS WERE INVOLVED, AND THE TWO PARTY
CONFERENCES, THE PARLIAMENTARY LABOR PARTY (PLP) AND
LABOR'S NATIONAL EXECUTIVE COMMITTEE WILL HAVE A CHANCE
TO REVIEW IT BEFORE PARLIAMENT RECONVENES IN NOVEMBER.

5. COMMENT: EXTENSION OF THE LIBERAL ACCORD, FROM
CALLAGHAN'S VIEWPOINT, WAS OBTAINED AT VERY LITTLE COST,
EITHER POLITICALLY OR SUBSTANTIVELY. BUT ITS VALUE
WAS DIMINISHED SOMEWHAT BY ITS CONDITIONALITY AND EVEN

MORE BY CALLAGHAN'S APPARENT EARLIER SUCCESS IN RE-
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DUCING THE POSSIBILITY OF OPPOSITION FROM THE OTHER
MINOR PARTIES (REFS C AND D). THE QUESTION OF WHAT
CIRCUMSTANCES MIGHT CAUSE THE LIBERALS TO DISSOLVE THE
PARTNERSHIP IS ARGUABLE, BUT THEY ARE STILL IN NO HURRY
FOR A GENERAL ELECTION. THE LIMITS OF LIBERAL TOLERANCE
ON WAGE SETTLEMENTS ARE AS YET UNDEFINED AND PROBABLY
DISPARATE. BUT SINCE A SERIES OF EXCESSIVE WAGE
SETTLEMENTS AND/OR GOVERNMENT CONFRONTATIONS WITH INDI-
VIDUAL UNIONS WOULD ACCENTUATE DIVISIVE TENDENCIES IN
THE PLP AS WELL AS WEAKEN LIBERAL SUPPORT, IT IS FAR
FROM CERTAIN THAT THE LIBERALS WOULD BE A DETERMINATIVE
FACTOR IN THE CRUNCH. IN ANY EVENT, RENEWAL OF THE PACT
HAS ENHANCED CALLAGHAN'S POLITICAL POSITION IN THE
NEAR-TERM.

BREWSTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL LEGISLATURE, POLITICAL PARTIES
Control Number: n/a
Copy: SINGLE
Sent Date: 29-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
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